

## For Further Information

The Consumer Resource Centers of the Attorney General's Office provide information and informal mediation of disputes to consumers and businesses. If you have a question, would like additional printed materials, or want assistance in resolving a consumer problem, please contact the nearest Consumer Resource Center by calling the statewide toll free or local telephone number below.

The Attorney General's Office cannot provide legal services for you or act as your attorney. You should consider other informal dispute resolution services, small claims court (for disputes involving less than \$2,500) or consulting a private attorney to determine your full legal rights.

### CONSUMER RESOURCE CENTERS OFFICE OF THE ATTORNEY GENERAL

E-Mail ..... [protect@atg.wa.gov](mailto:protect@atg.wa.gov)  
Web site ..... <http://www.wa.gov/ago/consumer>

Statewide ..... (800) 551-4636 Voice  
(800) 276-9883 Hearing Impaired  
(TDD)

Bellingham ..... (360) 738-6185

Kennewick ..... (509) 734-7140

Olympia ..... (360) 753-6210

Seattle ..... (206) 464-6684 Voice  
(206) 464-7293 Hearing Impaired  
(TDD)

Spokane ..... (509) 456-3123

Tacoma ..... (253) 593-2904

Vancouver ..... (360) 759-2150

LEMON LAW: .... (800) 541 8898  
or in Seattle, 587-4240.

CONSUMERLINE has taped information on a number of consumer related issues. Residents in Washington can call (800) 692-5082.

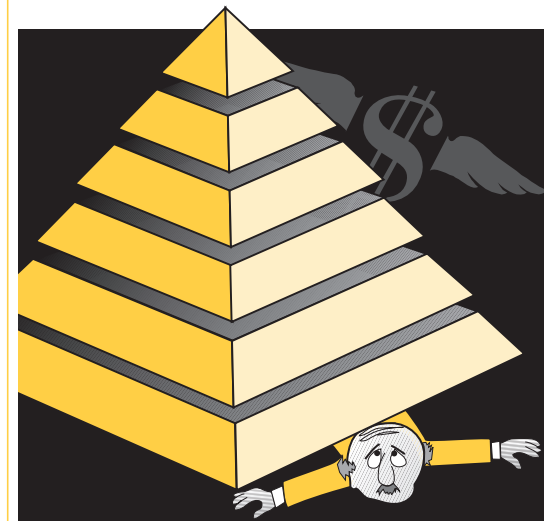
The Attorney General's Office has a policy of providing equal access to its services. If you need to receive the information in this brochure in an alternate format, please call (206) 464-6684. The hearing impaired may call 1-(800) 276-9883 State-wide, or in Seattle at 464-7293.



Illegal Pyramid Schemes February 2000  
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## Illegal Pyramid Schemes

# DON'T GET



# SQUASHED

Consumer Resource Center  
Office of the Attorney General  
Christine O. Gregoire

# Illegal Pyramid Schemes

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The Consumer Resource Center of the Attorney General's Office receives a great number of inquiries about so-called "pyramid schemes" and multi-level marketing" ventures. Many times they are advertised as a quick way to get rich. Unfortunately, some of these schemes violate Washington State's Chain Distributor Schemes Act (Revised Code of Washington RCW 19.102) and can prove extremely costly to those people who invest in them.

## What is a Multi-Level Venture?

Multi-level businesses operate on many levels as the name indicates. One person has others working beneath him or her usually selling a product. Those people, in turn have another level of salespeople working under them and so on.

You may be familiar with some well-established, legal multi-level marketing operations. In these multi-level operations, participants make money primarily from the products which they and those working under them sell, and not through the recruitment of new participants.

## What is an Illegal "Pyramid Scheme"?

An illegal "pyramid scheme" is a form of multi-level marketing where the product is only of secondary importance, or there may be no product at all. To join, you must pay some type of initial investment which gives

you the right to recruit others into the company. For each person you bring into the company you receive money, or other bonuses. Therefore, your earning potential depends primarily on how many people you sign up, not how much merchandise is sold.

Thus, under the Washington law, a business venture that meets all three of these descriptions is an illegal pyramid:

- **You must make an investment to get the right to recruit.**
- **When you recruit another person into the program, you receive what the law calls "consideration". That usually means money but can be anything else of value.**
- **Your new recruits must make an investment to get the right to recruit, and they receive something of value for getting other people to join.**

**All three of the requirements must be met for the venture to be illegal.** And a venture is not legitimate simply because the organization claims they sell a product or limit the number of participants. If all three of the above are met, it is illegal.

**WARNING:** Many businesses claim these requirements do not apply to their schemes. For example, they may claim, in writing, that no payment is required, while their practice is the opposite. If in doubt consult an attorney.

## What is meant by an "Investment"?

An investment includes any money paid to enter the venture. Though it may be called a "membership fee" or a "bookkeeping charge", the law still considers it to be an investment. And an inventory of products you must buy to resell is also considered to be an investment. Giving of your time or talents, or buying demonstration samples at cost is not considered to be an investment.

## Does the Attorney General's Office review Multi-Level Marketing Ventures for Legality?

No. This office does not endorse or approve any marketing program. It is a violation of state law for any pyramid operator to claim or imply the program has the approval of the Attorney General's Office.

Some illegal pyramid operators may tell you that the details of the program were sent to the Attorney General's Office and that the Attorney General's Office did not express any objection. That does not mean the program is in compliance with state law, since our office does not provide that kind of advice.

## What should I do if contacted by an illegal Pyramid Operator?

Ignore their marketing pitch and file a complaint with the Attorney General's Office.

**REMEMBER:** Every person who participates in an illegal pyramid scheme is breaking the law.